

Fairfax County Economic Index

Volume III, Number 4

SEPTEMBER 1999

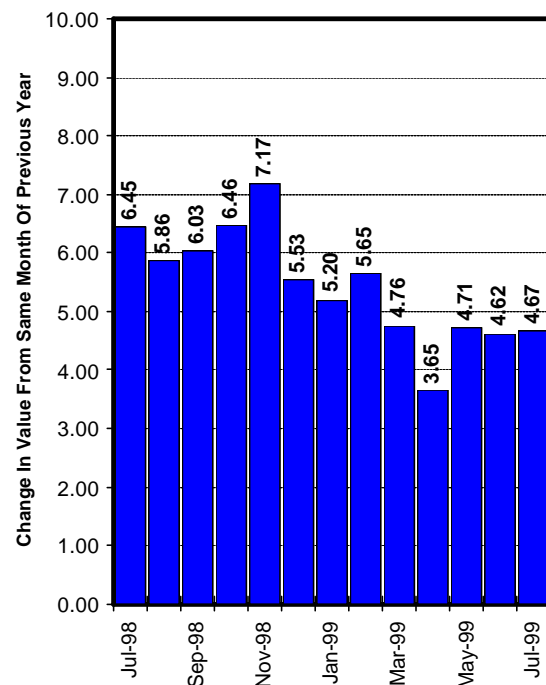
Leading Indicators Point Toward Slower Growth

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, registered 119.56 in July, a decline of 0.49 percent from June. This was the fourth consecutive decline in the Index after peaking in March. During this four-month downward trend, the Index has lost 1.46 percent, but for the year (July 1998-July 1999), the Index remains strongly positive having gained 4.1 percent. In July, two of the Index's four components were negative.

- Transient occupancy tax collections, adjusted for inflation and seasonal variation, were down for a second month but remain 7.8 percent ahead on a monthly over-the-year basis; and
- Sales tax receipts, adjusted for inflation and seasonal variation, dropped after increasing sharply in June; while
- Total employment was up in July after having declined on a month-to-month basis over the preceding two months; and
- Consumer confidence gained for a second month.

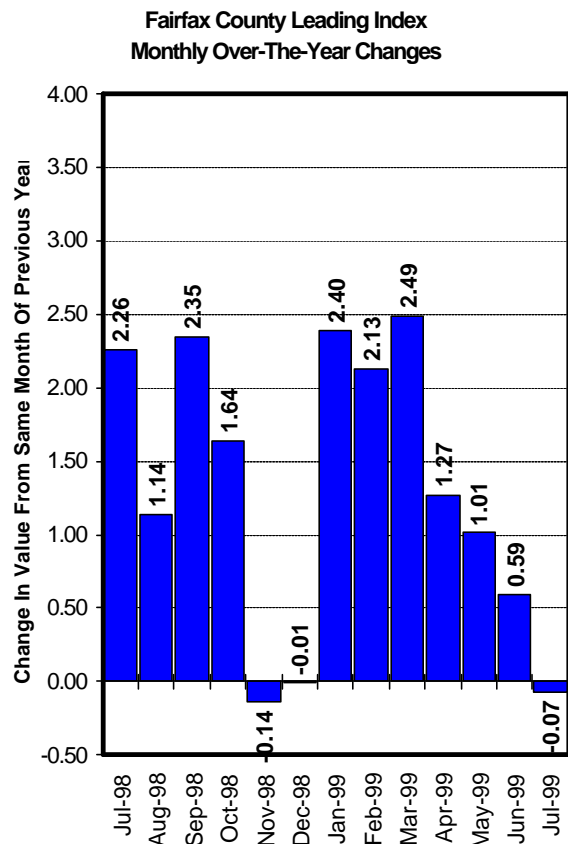
The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy 9 to 12 months in advance, increased slightly in July to 105.48, a gain of 0.15 percent. This gain reversed a three-month downward trend following the Index's peak in March. However, for the year, the Leading Index was slightly negative. This is the third time since last November that the Index has been negative on a

**Fairfax County Coincident Index
Monthly Over-The-Year Changes**



Source: Mason Enterprise Center, George Mason University
monthly over-the-year basis. In July, three of the Index's five components contributed to its slight gain.

- Initial claims for unemployment insurance decreased (improved) in July following its seasonal increase in June and now have been down in five of the year's first seven months;



Source: Mason Enterprise Center, George Mason University

- Residential building permits increased moderately following three monthly declines; and
- The total value of residential building permits was up slightly after being down in four of the last five months; while
- New automobile registrations decreased following two strong monthly gains; and
- Consumer expectations declined sharply falling below their last February level.

The Fairfax County economy continues to perform strongly although it has shown definite and slow moderation in its growth rate since the fourth quarter of 1998. Still, this performance remains well ahead of its 1998 gains. The outlook, however, has shown a more significant slowing as measured by the Leading Index that has decelerated rapidly since March and, in July, dropped below its July 1998 level. Looking forward nine to twelve months, this trend can be expected to spread out more broadly across the economy.

CURRENT CONDITIONS

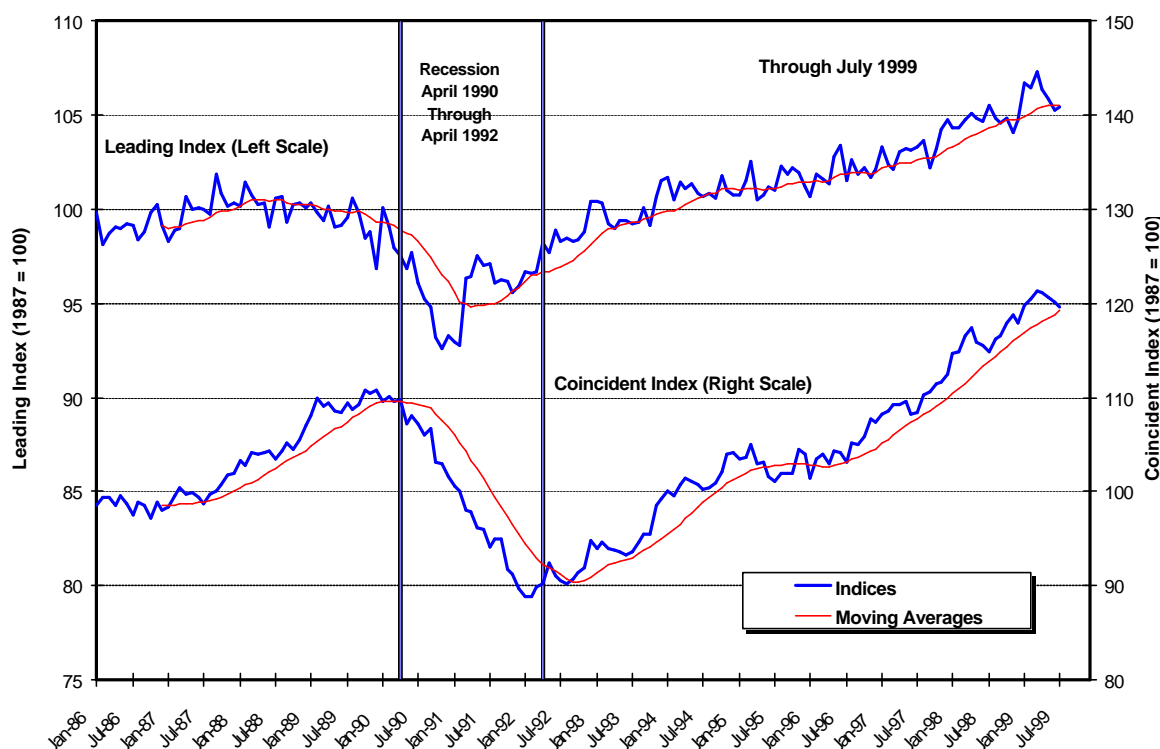
Overall, the Washington area and Fairfax County began the third quarter with a positive performance that reversed the second quarter's relative weak gains. This same pattern was seen in the national economy. Following its strong 4.3 percent gain in GDP, the nationally economy's growth rate slowed to 1.8 percent in the second quarter, but appeared to rebound in July. Some of July's strength may be attributed to unusually strong seasonal factors while much of the national and local growth simply underscores the continuing health of the economy.

After experiencing monthly over-the-year slowing in job growth for each of the year's first six months, job growth in the Washington metropolitan area accelerated in July to an annual rate of 61,400. Unemployment dropped as did initial claims for unemployment insurance, and the Help Wanted Index increased. These labor market indicators all point to tighter conditions in July going forward into the fall.

Underlying the area's economic performance are several important trends. Job growth and economic expansion this year are occurring in both the suburban jurisdictions and in the District of Columbia. Additionally, these gains are being registered across all sectors of the economy including the public sector which, because of federal workforce downsizing, had been a drag on the area's growth. Regionwide in July, the public sector accounted for 15 percent of the job growth, well ahead of its average share of 5 percent since the recession. Job growth is also favoring higher skilled and salaried positions with business services and engineering and management services accounting for just under 55 percent of all new jobs in the metropolitan area over the past twelve months.

Fairfax County continues to be a major source of the Washington area's economic growth. During the twelve months ending in July, it added 23,075 new jobs for a gain of 4.8 percent. This compared to a 2.7 percent job growth rate for the metropolitan area. With twenty percent of the region's population, Fairfax County is generating 38 percent of the area's new jobs. While the metropolitan area's unemployment rate stands at a low 2.7 percent and unemployment in the suburbs is down to 2.2 percent, Fairfax County's unemployment stands at 1.4 percent, down from 1.6 percent a year ago. This decrease in unemployment represents a decline of 1,115 County residents who had been previously unemployed. It also means that an additional 12,972 County residents gained employment during the year.

Business Cycle Indicators -- Fairfax County, Virginia



Source: Mason Enterprise Center, George Mason University

While the County economy has continued to expand, some of its indicators of current performance have grown more slowly in recent months and some have even trended below their same-month performance in 1998. The slowing of sales tax collections generally and tax revenues from transient occupancy (hotels/motels) is consistent with the recent increases in interest rates and slowing consumer spending seen in national trends. While retail sales continue to run ahead of same-month levels in 1998, the month-to-month gains are slowing nationally and locally. In Fairfax County, sales tax receipts for the year are up 10 percent but in July, on a seasonally adjusted basis, they were down almost 9 percent from June. How consumer spending trends over the remainder of the year will be critical to the economy's longer term outlook.

NEAR-TERM OUTLOOK

The Leading Index is providing a clear direction for the near-term performance of the County economy. A strict reading of this trend would suggest that the economy's growth curve will reach a plateau and flatten out in early 2000. However, how the economy

actually tracks going forward will be governed to a large extent by consumer spending as there are no fundamental problems that will independently bring the economy to a lower level.

Consumer confidence and interest rates will be the key variables impacting consumer spending in the fourth quarter and into 2000. With interest rates already rising, sales of housing, autos and other "big ticket" items are expected to trend lower over the remainder of the year. Recent volatility in the financial markets also reflects the increases in interest rates and uncertainty regarding future increases in the Federal Funds Rate. This uncertainty has already translated into lower consumer expectations (consumer confidence six months hence). In July, consumer expectations dropped 4.8 percent to their lowest level since January. It is expected that further uncertainties surrounding the possible impacts of Y2K will undercut consumer confidence and further impact consumer spending in the fourth quarter. These unsettled conditions may slow the economy for a period of three to six months and then its fundamental strengths should re-emerge to drive the County's economy higher by the second half of next year.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Jul-99 Prelim.	Jun-99 Final	Jul-98 Final	Jun-99 to Jul-99	Jul-98 to Jul-99
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	119.56	120.15	114.89	-0.49	4.06
Leading Index (1987 = 100)	105.48	105.32	105.55	0.15	-0.07
Fairfax County Coincident Index Components					
Total Covered Employment (Seasonally Adjusted)	503,498	500,893	480,423	0.52	4.80
<i>Total Covered Employment (Unadjusted)</i>	<i>506,272</i>	<i>507,846</i>	<i>483,070</i>	<i>-0.31</i>	<i>4.80</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	266	296	247	-10.07	7.83
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>457</i>	<i>470</i>	<i>415</i>	<i>-2.87</i>	<i>10.09</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	7,955	8,733	7,227	-8.91	10.08
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>9,932</i>	<i>11,812</i>	<i>8,987</i>	<i>-15.92</i>	<i>10.52</i>
South Atlantic Consumer Confidence	189	182	181	3.79	4.36
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	5,548	6,937	6,287	-20.02	-11.75
<i>Automobile Registrations (Unadjusted)</i>	<i>6,308</i>	<i>7,813</i>	<i>7,148</i>	<i>-19.26</i>	<i>-11.75</i>
Initial Unemployment Claims (Seasonally Adjusted)	667	766	839	-12.96	-20.50
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>667</i>	<i>727</i>	<i>839</i>	<i>-8.25</i>	<i>-20.50</i>
South Atlantic Consumer Expectations	111.6	123.2	117.3	-9.42	-4.86
Residential Building Permits (Number of Units, Seasonally Adjusted)	655	432	990	51.63	-33.85
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>688</i>	<i>489</i>	<i>1,040</i>	<i>40.70</i>	<i>-33.85</i>
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	33,230	30,022	42,079	10.69	-21.03
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	<i>52,763</i>	<i>54,251</i>	<i>65,445</i>	<i>-2.74</i>	<i>-19.38</i>
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	547,718	538,832	539,277	1.65	1.57
<i>Total Labor Force (Unadjusted)</i>	<i>562,521</i>	<i>545,166</i>	<i>553,851</i>	<i>3.18</i>	<i>1.57</i>
Unemployment Rate (Percent, Seasonally Adjusted)	1.19	1.47	1.33	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>1.54</i>	<i>1.83</i>	<i>1.69</i>	<i>--</i>	<i>--</i>

Notes: All components included in the indices are seasonally adjusted. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data.

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We are on the web at:
**[www.co.fairfax.va.us/comm/
economic/economic.htm](http://www.co.fairfax.va.us/comm/economic/economic.htm)**

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